

**HOSPITAL SERVICE DISTRICT NO. 3
OF THE PARISH OF LAFOURCHE,
STATE OF LOUISIANA
(D/B/A THIBODAUX REGIONAL
MEDICAL CENTER)
Thibodaux, Louisiana**

Audited Financial Statements
Years Ended September 30, 2010 and 2009

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 3/16/11

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Hospital Service District No. 3 of the
Parish of Lafourche, State of Louisiana

We have audited the accompanying balance sheets of Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana (d/b/a Thibodaux Regional Medical Center) (the "Hospital") as of September 30, 2010 and 2009, and the related statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of September 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2011 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 3 through 15 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Horne LLP

Ridgeland, Mississippi
February 11, 2011

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
PARISH OF LAFOURCHE, STATE OF LOUISIANA
(D/B/A THIBODAUX REGIONAL MEDICAL CENTER)
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended September 30, 2010 and 2009**

This section of the Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana (d/b/a Thibodaux Regional Medical Center) (the "Hospital")'s, annual financial report provides important background information and management's analysis of the Hospital's financial performance during the fiscal years ended September 30, 2010 and 2009. Please read this section in conjunction with the basic financial statements in this report.

REQUIRED FINANCIAL STATEMENTS

The basic financial statements contained in this report are presented using Governmental Accounting Standards Board ("GASB") accounting principles. These financial statements offer short-term and long-term financial information about the Hospital's activities.

The balance sheet includes all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). They also provide the basis for computing rate of return, evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses and changes in net assets. This statement measures changes in the Hospital's operations over the past year and can be used to determine whether the Hospital has been able to recover all of its costs through its net patient service revenue and other revenue sources.

The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Hospital's cash from operating, investing and financing activities and to provide answers to such questions as where did cash come from, what was cash used for and what was the change in the cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE HOSPITAL

The balance sheets and the statements of revenues, expenses and changes in net assets report information about the Hospital's activities. Increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in the healthcare industry, changes in Medicare and Medicaid regulations and changes in managed care contracting should also be considered.

2010 FINANCIAL HIGHLIGHTS

The following summarizes the Hospital's financial highlights for the year ended September 30, 2010.

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Fiscal Years Ended September 30, 2010 and 2009**

The Hospital generated \$24,993,000 in cash from operations during the year ended September 30, 2010. Investments in property and equipment totaled \$18,558,000 for the 2010 fiscal year.

The Hospital reported an increase in net patient services revenue of \$8,702,000 in 2010. This was a 7 percent increase compared to 2009.

The Hospital's operating margin was 12.9 percent in 2010 versus 16.5 percent in 2009. The decrease was primarily driven by a decrease in inpatient admissions.

Balance Sheets

The Hospital's condensed balance sheets are presented below:

| | TABLE 1 September 30, | | Dollar Change | Percent Change |
|---------------------------------------|--|-------------------|--------------------------------|---------------------------------|
| | 2010 | 2009 | | |
| | <i>(In Thousands)</i> | | | |
| Total current assets | \$ 32,011 | \$ 33,284 | \$ (1,273) | (3.82%) |
| Property, plant and equipment, net | 129,076 | 120,823 | 8,253 | 6.83% |
| Investments | 101,128 | 90,666 | 10,462 | 11.54% |
| Other | 1,300 | 1,230 | 70 | 5.69% |
| Total assets | <u>\$ 263,515</u> | <u>\$ 246,003</u> | <u>\$ 17,512</u> | 7.12% |
| Total current liabilities | \$ 11,738 | \$ 12,451 | \$ (713) | (5.73%) |
| Net assets | <u>251,777</u> | <u>233,552</u> | <u>18,225</u> | 7.80% |
| Total liabilities and net Assets | <u>\$ 263,515</u> | <u>\$ 246,003</u> | <u>\$ 17,512</u> | 7.12% |

As shown in Table 1 above, total assets increased by \$17,512,000 or 7.12 percent, to \$263,515,000 at September 30, 2010, up from \$246,003,000 at September 30, 2009.

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Fiscal Years Ended September 30, 2010 and 2009**

Current Assets

The decrease in current assets resulted primarily from a decrease in cash and cash equivalents. At September 30, 2010, current assets continued to exceed current liabilities. The current ratio increased to 2.8 as of September 30, 2010 up from 2.7 as of September 30, 2009. These calculations exclude consideration of the investments designated by the Board of Commissioners for plant and equipment additions and replacements. Including these liquid investments in the calculations would yield substantially higher ratios.

Capital Assets

Table 2 presents the components of the Hospital's capital assets at September 30, 2010 and 2009.

TABLE 2

| | September 30, | |
|--|-----------------------|-------------------|
| | 2010 | 2009 |
| | <i>(In Thousands)</i> | |
| Land and land improvements | \$ 12,734 | \$ 12,691 |
| Building, fixed equipment and equipment | 203,044 | 171,499 |
| Subtotal | 215,778 | 184,190 |
| Less accumulated depreciation and amortization | (87,182) | (78,412) |
| Construction in progress | 480 | 15,045 |
| Net capital assets | <u>\$ 129,076</u> | <u>\$ 120,823</u> |

During fiscal year 2010, the Hospital invested \$18,558,000 in a broad range of capital assets. Net capital assets have increased as the Hospital has enhanced existing facilities and equipment. Annual depreciation expense was \$10,283,000.

In Table 3, the Hospital's fiscal year 2011 capital budget projects spending up to \$13,600,000. These projects are expected to be financed from operations. More information about the Hospital's capital assets is presented in the notes to the basic financial statements.

TABLE 3

| | |
|---------------------------|----------------------|
| Equipment purchases | \$ 7,600,000 |
| Construction / renovation | <u>6,000,000</u> |
| Total | <u>\$ 13,600,000</u> |

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Fiscal Years Ended September 30, 2010 and 2009**

Net Assets

Table 4 presents the components of the Hospital's net assets at September 30, 2010 and 2009:

TABLE 4

| | September 30, | |
|---|-----------------------|-------------------|
| | 2010 | 2009 |
| | <i>(In Thousands)</i> | |
| Invested in capital assets, net of related debt | \$ 129,076 | \$ 120,823 |
| Unrestricted | 122,701 | 112,729 |
| | <u>\$ 251,777</u> | <u>\$ 233,552</u> |

During 2010, total net assets increased \$18,225,000, or 7.80 percent, as a result of revenue exceeding expenses.

The Hospital purchased \$18,558,000 of capital assets during 2010, which increased the reported amount of net assets invested in capital assets. This increase was offset by depreciation expense of \$10,283,000.

Statements of Revenue and Expenses

A summary of the Hospital's revenues and expenses for fiscal years 2010 and 2009 is presented below:

| | TABLE 5 | | Dollar Change | Percent Change |
|-----------------------------|----------------------------------|----------------|--------------------------|---------------------------|
| | Years Ended September 30, | 2009 | | |
| | 2010 | | | |
| | <i>(In Thousands)</i> | | | |
| Revenue | | | | |
| Net patient service revenue | \$ 126,494 | \$ 117,793 | \$ 8,701 | 7.39% |
| Other revenue | 2,196 | 2,196 | - | 0.00% |
| Total operating revenue | <u>128,690</u> | <u>119,989</u> | <u>8,701</u> | <u>7.25%</u> |

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Fiscal Years Ended September 30, 2010 and 2009**

TABLE 5 (continued)
Years Ended September 30,
2010 2009

**Dollar
Change Percent
Change**

(In Thousands)

| | | | | |
|--|-----------|-----------|------------|----------|
| Expenses | | | | |
| Salaries and wages and employee benefits and payroll taxes | \$ 51,091 | \$ 47,130 | \$ 3,961 | 8.40% |
| Other operating expenses | 50,754 | 43,391 | 7,363 | 16.97% |
| Depreciation | 10,283 | 9,676 | 607 | 6.27% |
| Total operating expenses | 112,128 | 100,197 | 11,931 | 11.91% |
| Income from operations | 16,562 | 19,792 | (3,230) | (16.32%) |
| Nonoperating income | 1,663 | 2,178 | (515) | (23.65%) |
| Revenue in excess of Expenses | \$ 18,225 | \$ 21,970 | \$ (3,745) | (17.05%) |

Net Patient Service Revenue

During fiscal year 2010, the Hospital derived 98.3 percent of its total operating revenue from net patient service revenue. Total net patient service revenue increased \$8,701,000 or 7.39 percent, in 2010. Overall activity at the Hospital, as measured by inpatient acute discharges, decreased by 6.0 percent to 7,453 discharges in 2010 from 7,929 discharges in 2009. Acute patient days decreased 5.5 percent over prior year, from 31,477 in 2009 to 29,758 in 2010. The average length of stay for acute patients, (excluding newborns), remained at 4.0 days in 2010 and 4.0 days in 2009. The Hospital experienced an increase in net revenue due to increases in outpatient visit and the addition of medical oncology services.

Table 6 presents the relative percentages of gross charges billed for patient services by payor for fiscal years 2010 and 2009:

TABLE 6

| | Years Ended September 30, | |
|--|----------------------------------|-------------|
| | 2010 | 2009 |
| Medicare (includes Medicare Replacement) | 50% | 49% |
| Managed care | 37 | 38 |
| Medicaid | 10 | 10 |
| Self-pay | 3 | 3 |
| | 100% | 100% |

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Fiscal Years Ended September 30, 2010 and 2009**

Table 7 presents the components of net patient service revenue for fiscal years 2010 and 2009:

| | TABLE 7 Years Ended September 30, | | Change | |
|----------------------------------|--|-------------|---------------|----------------|
| | 2010 | 2009 | Dollar | Percent |
| | <i>(In Thousands)</i> | | | |
| Gross patient service charges | \$ 420,456 | \$ 380,097 | \$ 40,359 | 10.62% |
| Contractual and other allowances | | | | |
| Medicare | 154,956 | 140,417 | 14,539 | 10.35% |
| Managed care | 79,448 | 70,689 | 8,759 | 12.39% |
| Medicaid | 38,351 | 33,747 | 4,604 | 13.64% |
| Other | 9,360 | 7,440 | 1,920 | 25.81% |
| Total contractual allowances | 282,115 | 252,293 | 29,822 | 11.82% |
| | 138,341 | 127,804 | 10,537 | 8.24% |
| Provision for bad debts | 11,847 | 10,011 | 1,836 | 18.34% |
| Net patient service revenue | \$ 126,494 | \$ 117,793 | \$ 8,701 | 7.39% |

Gross patient service charges increased \$40,359,000 or 10.62 percent from prior year primarily due to increases in inpatient admissions, outpatient visits and additional oncology services. Net patient service revenue, before provision for bad debts, increased \$10,537,000 or 8.24 percent. Total contractual allowances as a percentage of gross patient service charges were 67.1 percent for 2010 and 66.4 percent in the prior year.

Excluded from gross patient service charges are amounts forgone for patient services falling under the Hospital's charity care policy. These amounts are based on established rates for the services provided. Gross charges of \$2,009,000 were forgone during the current fiscal year compared to \$2,363,000 in the prior fiscal year.

The provision for bad debts increased to \$11,847,000 from the prior year amount of \$10,011,000. This \$1,836,000 or 18.34 percent increase is driven primarily by effects of the current economic conditions.

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Operating Expenses

Employee related expenses increased \$3,961,000, or 8.40 percent, to \$51,091,000 in the current fiscal year from \$47,130,000 in the prior fiscal year. The increase is mainly due to an increase in employees including additional employed physicians. As a percentage of total revenue, these expenses were approximately 40 and 39 percent for 2010 and 2009, respectively.

Other operating expenses increased \$7,363,000, or 16.97 percent, from the prior year. As a percentage of total revenue, these expenses were approximately 39 percent for 2010 and 36 percent for 2009.

Nonoperating Income

Nonoperating income is comprised primarily of investment income and profit from the joint venture. Investment income consists of interest earnings on funds designated by the Board of Commissioners. Other gains/losses that are not directly related to the provision of healthcare services are also classified as nonoperating income. Nonoperating income decreased from the prior year primarily due to the lower interest rates in 2010.

2009 FINANCIAL HIGHLIGHTS

The following summarizes the Hospital's financial highlights for the year ended September 30, 2009.

The Hospital generated \$33,697,000 in cash from operations during the year ended September 30, 2009. Investments in property and equipment totaled \$20,999,000 for the 2009 fiscal year.

The Hospital reported an increase in net patient services revenue of \$16,330,000 in 2009. This was a 16 percent increase compared to 2008.

The Hospital's operating margin was 16.5 percent in 2009 versus 7.5 percent in 2008. The increase was primarily driven by an increase in both inpatient admissions and outpatient visits as well as a charge increase that went into effect in November 2008.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended September 30, 2010 and 2009**

Balance Sheets

The Hospital's condensed balance sheets are presented below:

| | TABLE 8 | | | |
|---------------------------------------|-------------------|-------------------|------------------|---------|
| | September 30, | | Dollar | Percent |
| | 2009 | 2008 | Change | Change |
| | (In Thousands) | | | |
| Total current assets | \$ 33,284 | \$ 25,981 | \$ 7,303 | 28.11% |
| Property, plant and equipment, net | 120,823 | 109,509 | 11,314 | 10.33% |
| Investments | 90,666 | 84,569 | 6,097 | 7.21% |
| Other | 1,230 | 1,001 | 229 | 22.88% |
| Total assets | <u>\$ 246,003</u> | <u>\$ 221,060</u> | <u>\$ 24,943</u> | 11.28% |
| Total current liabilities | \$ 12,451 | \$ 9,477 | \$ 2,974 | 31.38% |
| Net assets | <u>233,552</u> | <u>211,583</u> | <u>21,969</u> | 10.38% |
| Total liabilities and net assets | <u>\$ 246,003</u> | <u>\$ 221,060</u> | <u>\$ 24,943</u> | 11.28% |

As shown in Table 8 above, total assets increased by \$24,943,000 or 11.28 percent, to \$246,003,000 at September 30, 2009, up from \$221,060,000 at September 30, 2008.

Current Assets

An increase in current assets resulted primarily from an increase in cash and a decrease in accounts receivable. Management invests excess cash in investments. At September 30, 2009, current assets continued to exceed current liabilities. The current ratio remained constant at 2.7 for September 30, 2009. These calculations exclude consideration of the investments designated by the Board of Commissioners for plant and equipment additions and replacements. Including these liquid investments in the calculations would yield substantially higher ratios.

Capital Assets

Table 9 presents the components of the Hospital's capital assets at September 30, 2009 and 2008.

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(D/B/A THIBODAUX REGIONAL MEDICAL CENTER)
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended September 30, 2010 and 2009**

TABLE 9

| | September 30, | |
|--|-----------------------|-------------------|
| | 2009 | 2008 |
| | <i>(In Thousands)</i> | |
| Land and land improvements | \$ 12,691 | \$ 7,375 |
| Building, fixed equipment and equipment | 171,499 | 162,639 |
| Subtotal | 184,190 | 170,014 |
| Less accumulated depreciation and amortization | (78,412) | (69,033) |
| Construction in progress | 15,045 | 8,528 |
| Net capital assets | <u>\$ 120,823</u> | <u>\$ 109,509</u> |

During fiscal year 2009, the Hospital invested \$20,999,000 in a broad range of capital assets. Net capital assets have increased as the Hospital has enhanced existing facilities and equipment, and the Hospital is in the process of building a new emergency department and food services / cafeteria area. Annual depreciation expense was \$9,676,000.

In Table 10, the Hospital's fiscal year 2010 capital budget projected spending up to \$12,200,000. These projects are expected to be financed from operations. More information about the Hospital's capital assets is presented in the notes to the basic financial statements.

TABLE 10

| | |
|---------------------------|----------------------|
| Equipment purchases | \$ 5,800,000 |
| Construction / renovation | 6,400,000 |
| Total | <u>\$ 12,200,000</u> |

Net Assets

Table 11 presents the components of the Hospital's net assets at September 30, 2009 and 2008:

TABLE 11

| | September 30, | |
|---|-----------------------|-------------------|
| | 2009 | 2008 |
| | <i>(In Thousands)</i> | |
| Invested in capital assets, net of related debt | \$ 120,823 | \$ 109,509 |
| Unrestricted | 112,729 | 102,074 |
| | <u>\$ 233,552</u> | <u>\$ 211,583</u> |

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During 2009, total net assets increased \$21,969,000, or 10.38 percent, as a result of revenue exceeding expenses.

The Hospital purchased \$20,999,000 of capital assets during 2009, which increased the reported amount of net assets invested in capital assets. This increase was offset by depreciation expense of \$9,676,000.

Statements of Revenue and Expenses

A summary of the Hospital's revenues and expenses for fiscal years 2009 and 2008 is presented below:

| | TABLE 12 Years Ended September 30, | | Dollar Change | Percent Change |
|--|---|-------------|--------------------------------|---------------------------------|
| | 2009 | 2008 | | |
| | <i>(In Thousands)</i> | | | |
| Revenue | | | | |
| Net patient service revenue | \$ 117,793 | \$ 101,463 | \$ 16,330 | 16.09% |
| Other revenue | 2,196 | 2,199 | (3) | (0.09%) |
| Total operating revenue | 119,989 | 103,662 | 16,327 | 15.75% |
| Expenses | | | | |
| Salaries and wages and employee benefits and payroll taxes | 47,130 | 43,125 | 4,005 | 9.29% |
| Other operating expenses | 43,391 | 42,915 | 476 | 1.11% |
| Depreciation and amortization | 9,676 | 9,812 | (136) | (1.39%) |
| Total operating expenses | 100,197 | 95,852 | 4,345 | 4.53% |
| Income from operations | 19,792 | 7,810 | 11,982 | 153.41% |
| Nonoperating income | 2,178 | 3,468 | (1,290) | (37.20%) |
| Revenue in excess of expenses | \$ 21,970 | \$ 11,278 | \$ 10,692 | 94.80% |

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Net Patient Service Revenue

During fiscal year 2009, the Hospital derived 98.2 percent of its total operating revenue from net patient service revenue. Total net patient service revenue increased \$16,330,000, or 16.09 percent, in 2009. Overall activity at the Hospital, as measured by inpatient acute discharges, increased by 8.2 percent to 7,929 discharges in 2009 from 7,330 discharges in 2008. Acute patient days increased 2.6 percent over prior year, from 30,691 in 2008 to 31,477 in 2009. The average length of stay for acute patients, (excluding newborns), decreased to 4.0 days in 2009 from 4.2 days in 2008. The Hospital experienced an increase in net revenue due to increases in both inpatient admissions and outpatient visits.

Table 13 presents the relative percentages of gross charges billed for patient services by payor for fiscal years 2009 and 2008:

TABLE 13

| | Years Ended September 30, | |
|--|----------------------------------|-------------|
| | 2009 | 2008 |
| Medicare (includes Medicare Replacement) | 49% | 49% |
| Managed care | 38 | 38 |
| Medicaid | 10 | 10 |
| Self-pay | 3 | 3 |
| | <u>100%</u> | <u>100%</u> |

Table 14 presents the components of net patient service revenue for fiscal years 2009 and 2008:

TABLE 14

| | Years Ended September 30, | | Change | |
|----------------------------------|----------------------------------|-------------------|------------------|----------------|
| | 2009 | 2008 | Dollar | Percent |
| | <i>(In Thousands)</i> | | | |
| Gross patient service charges | \$ 380,097 | \$ 277,341 | \$ 102,756 | 37.05% |
| Contractual and other allowances | | | | |
| Medicare | 140,417 | 92,733 | 47,684 | 51.42% |
| Managed care | 70,689 | 46,004 | 24,685 | 53.66% |
| Medicaid | 33,747 | 22,882 | 10,865 | 47.48% |
| Other | 7,440 | 4,820 | 2,620 | 54.36% |
| Total contractual allowances | <u>252,293</u> | <u>166,439</u> | <u>85,854</u> | <u>51.58%</u> |
| | 127,804 | 110,902 | 16,902 | 15.24% |
| Provision for bad debts | <u>10,011</u> | <u>9,439</u> | <u>572</u> | <u>6.06%</u> |
| Net patient service revenue | <u>\$ 117,793</u> | <u>\$ 101,463</u> | <u>\$ 16,330</u> | <u>16.09%</u> |

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Gross patient service charges increased \$102,756,000 or 37.05 percent from prior year primarily due to increases in inpatient admissions, outpatient visits and a charge increase that went into effect in November, 2008. Net patient service revenue, before provision for bad debts, increased \$16,902,000, or 15.24 percent. Total contractual allowances as a percentage of gross patient service charges were 66.4 percent for 2009 and 60 percent in the prior year.

Excluded from gross patient service charges are amounts forgone for patient services falling under the Hospital's charity care policy. These amounts are based on established rates for the services provided. Gross charges of \$2,363,000 were forgone during the current fiscal year compared to \$1,366,000 in the prior fiscal year.

The provision for bad debts increased to \$10,011,000 from the prior year amount of \$9,439,000. This \$572,000 or 6.06 percent increase is driven primarily by effects of the current economic conditions.

Operating Expenses

Employee related expenses increased \$4,005,000, or 9.29 percent, to \$47,130,000 in the current fiscal year from \$43,125,000 in the prior fiscal year. The increase is mainly due to market driven wage increases that were effective January 2009 and an increase in employees. As a percentage of total revenue, these expenses were approximately 39 percent for 2009 and 42 percent for 2008.

Other operating expenses increased \$476,000, or 1.11 percent, from the prior year. As a percentage of total revenue, these expenses were approximately 36 percent for 2009 and 41 percent for 2008.

Nonoperating Income

Nonoperating income is comprised primarily of investment income and profit from the joint venture. Investment income consists of interest earnings on funds designated by the Board of Commissioners. Other gains/losses that are not directly related to the provision of healthcare services are also classified as nonoperating income. Nonoperating income decreased from the prior year primarily due to the lower interest rates in 2009.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

While the annual budget of the Hospital is not presented within these financial statements, the Hospital's Board and management considered many factors when setting the fiscal year 2010 budget. Although the financial outlook for the Hospital is excellent, of primary importance in setting the 2011 budget is the status of the economy and the healthcare environment, which takes into account market forces and environmental factors such as:

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- Medicare reimbursement changes
- Medicaid reimbursement changes, as well as the continuation at the current or increased level of the Disproportionate Share and Upper Payment Limit programs
- Increased number of uninsured and working poor
- Ongoing competition for services
- Workforce issues primarily in nursing and other clinically skilled positions
- Cost of supplies
- Cost of pharmaceuticals
- Ability to continue recruiting medical staff physicians to maintain the high level of services offered to our service area
- Continued growth of service levels in the ancillary departments
- Impact of Healthcare Reform as it relates to reimbursement and employee health insurance coverage

CONTACTING THE HOSPITAL'S FINANCIAL MANAGER

This financial report is designated to provide our citizens, customers and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Hospital administration.

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
PARISH OF LAFOURCHE, STATE OF LOUISIANA
(D/B/A THIBODAUX REGIONAL MEDICAL CENTER)**

Balance Sheets
September 30, 2010 and 2009

| | 2010 | 2009 |
|---|------------------------------|------------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 12,461,995 | \$ 14,804,525 |
| Investments | 691,438 | 691,388 |
| Patient accounts receivable, net of allowance for doubtful accounts of \$8,139,174 and \$7,431,027, respectively | 15,840,802 | 15,063,918 |
| Interest and other receivables | 39,353 | 54,280 |
| Inventories | 2,076,023 | 1,842,554 |
| Prepaid expenses | 901,232 | 827,578 |
| Total current assets | <u>32,010,843</u> | <u>33,284,243</u> |
| Cash and investments designated by Board for capital asset additions and replacements | 101,128,336 | 90,665,504 |
| Other assets | 1,299,905 | 1,230,583 |
| Capital assets, net | <u>129,075,688</u> | <u>120,822,680</u> |
| Total assets | <u><u>\$ 263,514,772</u></u> | <u><u>\$ 246,003,010</u></u> |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | \$ 4,910,926 | \$ 5,677,866 |
| Accrued employee compensation | 5,086,452 | 4,421,590 |
| Amounts due to contractual third-party settlements | 1,739,941 | 2,351,377 |
| Total current liabilities | <u>11,737,319</u> | <u>12,450,833</u> |
| Net assets | | |
| Invested in capital assets | 129,075,688 | 120,822,680 |
| Unrestricted | <u>122,701,765</u> | <u>112,729,497</u> |
| Total net assets | <u>251,777,453</u> | <u>233,552,177</u> |
| Total liabilities and net assets | <u><u>\$ 263,514,772</u></u> | <u><u>\$ 246,003,010</u></u> |

See accompanying notes.

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
PARISH OF LAFOURCHE, STATE OF LOUISIANA
(D/B/A THIBODAUX REGIONAL MEDICAL CENTER)**
Statements of Revenue, Expenses and Changes in Net Assets
Years Ended September 30, 2010 and 2009

| | 2010 | 2009 |
|--|-----------------------|-----------------------|
| Net patient service revenue, net of provision for bad debts of \$11,846,817 and \$10,011,225, respectively | \$ 126,493,772 | \$ 117,792,577 |
| Other operating revenue | 2,196,149 | 2,196,780 |
| Total operating revenue | <u>128,689,921</u> | <u>119,989,357</u> |
| Operating expenses | | |
| Salaries and wages | 42,382,365 | 39,712,332 |
| Employee benefits | 8,708,100 | 7,417,860 |
| Professional fees and services | 8,484,948 | 6,759,646 |
| Supplies and other | 26,138,144 | 21,013,446 |
| Purchased services | 9,519,300 | 8,892,056 |
| Other | 6,611,853 | 6,725,176 |
| Depreciation | 10,283,373 | 9,676,423 |
| Total operating expenses | <u>112,128,083</u> | <u>100,196,939</u> |
| Income from operations | <u>16,561,838</u> | <u>19,792,418</u> |
| Nonoperating revenues (expenses) | | |
| Investment income | 505,405 | 1,416,115 |
| Noncapital grants and contributions | 75,476 | 8,593 |
| Loss from disposal of capital assets | (21,243) | (8,506) |
| Income from joint venture | 1,103,800 | 760,889 |
| Total nonoperating income | <u>1,663,438</u> | <u>2,177,091</u> |
| Increase in net assets | 18,225,276 | 21,969,509 |
| Net assets, beginning of year | <u>233,552,177</u> | <u>211,582,668</u> |
| Net assets, end of year | <u>\$ 251,777,453</u> | <u>\$ 233,552,177</u> |

See accompanying notes.

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
PARISH OF LAFOURCHE, STATE OF LOUISIANA
(D/B/A THIBODAUX REGIONAL MEDICAL CENTER)**
Statements of Cash Flows
Years Ended September 30, 2010 and 2009

| | 2010 | 2009 |
|---|----------------------|----------------------|
| Cash flows from operating activities | | |
| Cash received from patients and third-party payors | \$ 125,120,379 | \$ 120,403,332 |
| Cash payments to suppliers | (51,897,630) | (42,389,605) |
| Cash payments to employees | (50,425,603) | (46,513,696) |
| Cash received from others | 2,196,149 | 2,196,780 |
| Net cash provided by operating activities | <u>24,993,295</u> | <u>33,696,811</u> |
| Cash flows from noncapital and financing activities | | |
| Grants and contributions received | <u>75,476</u> | <u>8,593</u> |
| Cash flows from capital and related financing activities | | |
| Acquisition of capital assets | <u>(18,557,624)</u> | <u>(20,999,112)</u> |
| Net cash used in capital and financing activities | <u>(18,557,624)</u> | <u>(20,999,112)</u> |
| Cash flows from investing activities | | |
| Investment income | 505,405 | 1,416,115 |
| Purchases of funds designated by board for capital asset additions and replacements | (90,462,832) | (86,097,052) |
| Sale and maturities of funds designated by board for capital asset additions and replacements | 80,000,000 | 80,000,000 |
| Sale of investments | 375,000 | 375,000 |
| Purchases of investments | (375,050) | (376,205) |
| Income from joint venture | 1,103,800 | 760,889 |
| Net cash used in investing activities | <u>(8,853,677)</u> | <u>(3,921,253)</u> |
| Increase (decrease) in cash and cash equivalents | (2,342,530) | 8,785,039 |
| Cash and cash equivalents, beginning of year | <u>14,804,525</u> | <u>6,019,486</u> |
| Cash and cash equivalents, end of year | <u>\$ 12,461,995</u> | <u>\$ 14,804,525</u> |
| Supplemental disclosure of cash flow information | | |
| Loss on disposal of capital assets | <u>\$ 21,243</u> | <u>\$ 8,506</u> |
| Reconciliation of income from operations to net cash provided by operating activities | | |
| Cash flows from operating activities | | |
| Income from operations | \$ 16,561,838 | \$ 19,792,418 |
| Adjustments to reconcile income from operations to net cash provided by operating activities | | |
| Depreciation | 10,283,373 | 9,676,423 |
| Provision for bad debts | 11,846,817 | 10,011,225 |
| Changes in operating assets and liabilities | | |
| Patient accounts receivable | (12,623,701) | (8,765,909) |
| Estimated third-party payor settlements | (611,436) | 1,241,528 |
| Other receivables and other assets | (128,049) | (66,638) |
| Inventories | (233,469) | 75,297 |
| Accounts payable and accrued expenses | (766,940) | 1,115,971 |
| Accrued employee compensation | 664,862 | 616,496 |
| Net cash provided by operating activities | <u>\$ 24,993,295</u> | <u>\$ 33,696,811</u> |

See accompanying notes.

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
PARISH OF LAFOURCHE, STATE OF LOUISIANA
(D/B/A THIBODAUX REGIONAL MEDICAL CENTER)**
Years Ended September 30, 2010 and 2009

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Organization

The accompanying financial statements include the accounts and transactions of Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana (d/b/a Thibodaux Regional Medical Center) (the "Hospital"). The Hospital is a nonprofit corporation organized by Lafourche Parish. The Lafourche Parish Council, which is the governing authority of Lafourche Parish, Louisiana, appoints members to the Hospital's Board of Commissioners. As a political subdivision, the Hospital is exempt from federal income taxes under Section 115 of the Internal Revenue Code. This exemption also extends to state income taxes.

Basis of Accounting

The Hospital uses enterprise fund accounting whereby its financial statements are prepared using the accrual basis of accounting. Under the accrual basis of accounting, which is in accordance with accounting principles generally accepted in the United States of America for proprietary fund types, substantially all revenues and expenses are subject to accrual.

Pursuant to Government Accounting Standards Board ("GASB") Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting"*, as amended, the Hospital applies the provisions of all relevant pronouncements of the Financial Accounting Standards Board ("FASB") issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements. FASB Statements issued subsequent to November 30, 1989, are not applicable.

Budgetary Information

Budgets are prepared on a basis consistent with accounting principles generally accepted in the United States of America, with concurrence by the owners on an annual basis. The Hospital is also required by the statute of the State of Louisiana to prepare a non-appropriated annual budget. The budget is not subject to appropriation and is, therefore, not required to be presented as supplementary information.

Blended Component Unit

The financial statements include the accounts of the Hospital and its blended component unit, Thibodaux Regional Surgical Services, Inc., as defined by GASB Statement No. 14, *"The Financial Reporting Entity"*. Thibodaux Regional Surgical Services, Inc. is a holding company that owns a 50 percent investment in Thibodaux Surgery Center, LLC, an ambulatory surgery center. This entity is presented as a blended component unit due to its relationship with the Hospital. All intercompany accounts and transactions have been eliminated.

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
PARISH OF LAFOURCHE, STATE OF LOUISIANA
(D/B/A THIBODAUX REGIONAL MEDICAL CENTER)**
Years Ended September 30, 2010 and 2009

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Thibodaux Regional Surgical Services, Inc. is a legally separate, taxable component unit of the Hospital and is considered a wholly-owned entity of the Hospital.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

In the healthcare environment, it is reasonably possible that estimates regarding third-party payments could change in the near term as a result of one or more future confirming events (for example, regulatory actions reflecting local or national audit or enforcement initiatives). For most entities with significant third-party payors revenues, the effect of the change could be material to the financial statements. Where material exposure exists, the uncertainty regarding revenue realization is disclosed in the notes to the financial statements.

Allowances for doubtful accounts are estimated based on historical write-off and collection percentages, and contractual allowances are estimated based on the terms of third-party contracts. Doubtful accounts are written off against the allowance after adequate collection effort is exhausted and recorded as recoveries of bad debts if subsequently collected.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs.

Cash Equivalents

Cash and cash equivalents include deposits that can be redeemed on demand and highly liquid debt investments with an original maturity of three months or less, excluding amounts restricted as to use by Board designation.

Patient Accounts Receivable

Patient accounts receivable is reported for services rendered at estimated net realizable amounts collectible from federal and state agencies (under the Medicare and Medicaid programs), managed

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
PARISH OF LAFOURCHE, STATE OF LOUISIANA
(D/B/A THIBODAUX REGIONAL MEDICAL CENTER)**
Years Ended September 30, 2010 and 2009

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

health plans, commercial insurance companies, workers' compensation, employers and patients, after deduction of allowances for estimated uncollectible amounts.

The allowance for doubtful accounts is based on historical losses and an analysis of currently outstanding amounts. This amount is generally increased by charges to a provision for bad debts, and decreased by write-offs of accounts determined by management to be uncollectible.

Investments

All investments are stated at fair value based on quoted market price. Changes in the fair value of investments are included in investment income.

Inventories

Inventories, consisting primarily of pharmaceuticals and medical supplies, are stated at cost based on the first-in, first-out method or at market, whichever is lower.

Prepaid Expenses

Prepaid expenses are amortized over the estimated period of future benefit, generally on a straight-line basis.

Investment in Joint Venture

The Hospital is accounting for its investment in a 50 percent owned joint venture that provides surgical and endoscopy services under the equity method of accounting. Using this method of accounting, the Hospital's share of net income (loss) is recognized as non-operating revenue (expenses) in the Hospital's statements of revenue and expenses and added to (deducted from) the investment account. The investment account is also reduced for any dividends received. The investment in joint venture is included in other assets on the balance sheet.

Capital Assets, Net

The Hospital records all capital assets acquisitions at cost, except for assets donated to the Hospital. Donated assets are recorded at fair value at the date of donation. The Hospital provides for depreciation using the straight-line method over the estimated useful lives of the assets.

In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Reserves* ("GASB 42"), management evaluates assets for potential impairment when a significant, unexpected decline in the service utility of a capital asset occurs.

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PARISH OF LAFOURCHE, STATE OF LOUISIANA
(D/B/A THIBODAUX REGIONAL MEDICAL CENTER)**
Years Ended September 30, 2010 and 2009

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Compensated Absences

Hospital employees are granted both vacation and sick leave. Accumulated vacation pay is accrued at the balance sheet date because it is payable upon termination of employment. Sick pay accrues, but is not reflected as a liability, because it is not payable upon termination of employment.

Net Assets

The Hospital's net assets are classified into three components and are defined as follows:

- Invested in capital assets, net of related debt – this component reports capital assets, including restricted capital assets, net of accumulated depreciation, as reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. As of September 30, 2010 and 2009, the Hospital had no outstanding debt.
- Restricted – this component reports those net assets with externally imposed constraints placed on their use by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. There were no restricted net assets at September 30, 2010 and 2009.
- Unrestricted – this component reports net assets that do not meet the definition of either of the other two components.

Operating Revenue and Nonoperating Income

The Hospital's primary purpose is to provide diversified healthcare services to individuals, physicians and businesses in Lafourche Parish and the surrounding communities. As such, activities related to the ongoing operations of the Hospital are classified as operating revenue. Operating revenue includes revenue that is generated from direct patient care, related support services, gains or losses from disposition of operating properties, rental income and sundry revenues related to the operation of the Hospital.

Income, gains and losses from investments not generated from operating funds and those not directly related to the ongoing operations of the Hospital or that occur infrequently, and gifts, grants and bequests not restricted by donors for specific purposes, are reported as nonoperating income.

Net Patient Service Revenue

The Hospital provides medical services to government program beneficiaries and has agreements with other third-party payors that provide for payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated

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Years Ended September 30, 2010 and 2009

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

net realizable amounts from patients, third-party payors and others for services rendered. The percentage of total net patient service revenue derived from services furnished to Medicare and Medicaid program beneficiaries was approximately 52 percent in 2010 and 49 percent in 2009.

Retroactive settlements are provided for in some of the governmental payment programs outlined above, based on annual cost reports. Such settlements are estimated and recorded as amounts due to or from third-party payors in the financial statements. The differences between these estimates and final determination of amounts to be received or paid are based on audits by fiscal intermediaries and are reported as adjustments to net patient service revenue when such determinations are made. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. These adjustments resulted in increases to net patient service revenue of \$205,500 in 2010 and \$487,300 in 2009. Estimated settlements for the Medicare and Medicaid programs through September 30, 2006, have been reviewed by program representatives and adjustments have been recorded to reflect any revisions to the recorded estimates required. The effect of any adjustments that may be made to cost reports still subject to review at September 30, 2010, will be reported in the Hospital's results of operations as such determinations are made.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charges forgone, based on established rates, totaled approximately \$2,009,000 in 2010 and \$2,363,000 in 2009.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
PARISH OF LAFOURCHE, STATE OF LOUISIANA
(D/B/A THIBODAUX REGIONAL MEDICAL CENTER)
Years Ended September 30, 2010 and 2009**

NOTES TO FINANCIAL STATEMENTS

Note 2. Cash, Cash Equivalents and Investments

The Hospital reports cash, cash equivalents and investments utilizing GASB Statement No. 40 ("GASB 40"), *Deposit and Investment Risk Disclosures*, which requires certain disclosures of investment risks related to credit risk, concentration of credit risk and interest rate risk associated with interest-bearing investments. Such disclosures required by GASB 40 and applicable to the Hospital are reflected below.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization ("NRSRO"). The Hospital's investment policy, which conforms to Louisiana state law, does not specifically limit investment in securities based on an NRSRO credit rating, but the policy does designate authorized investments by type.

Authorized investments, within established guidelines, are limited to securities of the U.S. government or its agencies, U.S. government obligations, U.S. and Louisiana municipal bonds, interest-bearing accounts and certificates of deposits of financial institutions, open-end or closed-end management type investment companies or investment trusts and investment trusts consisting of pooled or commingled funds of other hospitals.

Under GASB 40, unless there is information to the contrary, obligations of the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality. The following table presents each applicable rating grouped by investment type at fair value as of September 30, 2010 and 2009. The following investments are exempt from rating disclosure.

| By Investment Type | 2010 | 2009 |
|--------------------------------|-----------------------|-----------------------|
| Cash deposits, operating funds | \$ 10,954,550 | \$ 13,316,890 |
| Certificates of deposit | 40,375,000 | 80,375,000 |
| Money market deposits | 62,952,220 | 12,469,527 |
| Total cash and investments | <u>\$ 114,281,770</u> | <u>\$ 106,161,417</u> |

| By Balance Sheet Category | 2010 | 2009 |
|---|-----------------------|-----------------------|
| Cash and cash equivalents | \$ 12,461,996 | \$ 14,804,525 |
| Short-term investments | 691,438 | 691,388 |
| Designated assets by Board for capital asset additions and replacements | 101,128,336 | 90,665,504 |
| Total cash and investments | <u>\$ 114,281,770</u> | <u>\$ 106,161,417</u> |

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
PARISH OF LAFOURCHE, STATE OF LOUISIANA
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Years Ended September 30, 2010 and 2009

NOTES TO FINANCIAL STATEMENTS

Note 2. Continued

Concentration of Credit Risk

The Hospital's investment policy, in accordance with state statute, restricts investments in U.S. agencies to 50 percent of total investments. Investments in open-end and closed-end management type investment companies and investment trusts are limited to 20 percent of total investments. At September 30, 2010 and 2009, management believes the Hospital complies with this policy.

GASB 40 indicates that concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB 40 further defines an at-risk investment to be one that represents more than 5 percent of the market value of the total investment portfolio and requires disclosure of such at-risk investments. GASB 40 specifically excludes investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments from the disclosure requirement. At September 30, 2010, the Hospital had no investments requiring concentration-of-credit-risk disclosure.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Hospital will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The Hospital's formal investment policy is governed by and in conformity with Section 39:2955 of the Louisiana Revised Statutes, which establishes guidelines for depository and investment activity as follows:

- In accordance with statutes of the State of Louisiana, the Hospital maintains its deposits at financial institutions authorized by the Board of Commissioners.
- The collateral for public entity deposits in financial institutions is held in the name of the State Treasurer of Louisiana under a program established by the Louisiana State Legislature and is governed by Section 33:2955 of the Louisiana Revised Statutes. Under this program, the Hospital's funds are protected through a collateral pool administered by the State Treasurer.
- Financial institutions holding deposits of public funds must pledge securities as collateral against these deposits.
- In the event of a financial institution's failure, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

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Years Ended September 30, 2010 and 2009**

NOTES TO FINANCIAL STATEMENTS

Note 2. Continued

In accordance with GASB 40, investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. At September 30, 2010 and 2009, deposits and investments requiring custodial credit risk disclosure totaled \$114,281,770 and \$106,161,417, respectively, all of which were insured or collateralized in accordance with state statute.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Interest rate risk inherent in the portfolio is measured by monitoring the segmented time distribution of the investments in the portfolio. The table below summarizes the Hospital's segmented time distribution investment maturities in years by investment type as of September 30, 2010 and 2009.

2010

| By Investment Type | Fair Value | Years < 1 |
|--------------------------------|-------------------|-------------------------|
| Cash deposits, operating funds | \$ 10,954,550 | \$ 10,954,550 |
| Certificates of deposit | 40,375,000 | 40,375,000 |
| Money market deposits | 62,952,220 | 62,952,220 |
| Total cash and investments | \$ 114,281,770 | \$ 114,281,770 |

2009

| By Investment Type | Fair Value | Years < 1 |
|--------------------------------|-------------------|-------------------------|
| Cash deposits, operating funds | \$ 13,316,890 | \$ 13,316,890 |
| Certificates of deposit | 80,375,000 | 80,375,000 |
| Money market deposits | 12,469,527 | 12,469,527 |
| Total cash and investments | \$ 106,161,417 | \$ 106,161,417 |

Note 3. Accounts Receivable and Other Assets

The Hospital provides services primarily to the residents of Lafourche Parish, Louisiana and surrounding communities and does not require collateral prior to providing those services. An

**HOSPITAL SERVICE DISTRICT NO. 3 OF THE
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Years Ended September 30, 2010 and 2009**

NOTES TO FINANCIAL STATEMENTS

Note 3. Continued

allowance for doubtful accounts is provided in an amount equal to the estimated losses to be incurred in collection of the receivables. The allowance is based on historical collection experiences and a review of the current status of the existing receivables. The mix of receivables from patients and third-party payors at September 30, is as follows:

| | 2010 | 2009 |
|---|---------------|---------------|
| Receivable from patients and their insurance carriers | \$ 18,158,656 | \$ 17,040,857 |
| Receivable from Medicare | 5,767,639 | 5,202,360 |
| Receivable from Medicaid | 53,681 | 251,728 |
| Total patient accounts receivable | 23,979,976 | 22,494,945 |
| Less: allowance for doubtful accounts | (8,139,174) | (7,431,027) |
| Patient accounts receivable, net | \$ 15,840,802 | \$ 15,063,918 |

A summary of other assets follows:

Other Assets

| | 2010 | 2009 |
|---|--------------|--------------|
| Assets held in trust | \$ 714,426 | \$ 716,901 |
| Investment – Thibodaux Surgical Center, LLC | 585,479 | 513,682 |
| Total other assets | \$ 1,299,905 | \$ 1,230,583 |

In connection with employment contracts between the Hospital and a key officer, a provision has been made for future compensation which is payable upon termination of employment without cause. In the event of termination without cause, an amount equal to two times the key officer's salary would be paid out. The assets held in trust are carried at fair value.

Note 4. Retirement Plan

The Hospital sponsors an employee retirement plan (the "Plan") under Section 457(b) of the Internal Revenue Code. The Plan covers all employees age 21 or older with one year of service in which at least 1,000 hours were worked. The Plan provides that the Hospital, at its option, may make contributions to the Plan based on a discretionary percentage of eligible employees' base compensation, as defined, as well as matching contributions. The Hospital's discretionary contribution percentage was 4 percent of eligible compensation for the years ended September 30, 2010 and 2009. The Plan permits tax deferral by employees of amounts, combined with the Hospital's contribution, up to a maximum of 25 percent of their base compensation, subject to certain limits.

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NOTES TO FINANCIAL STATEMENTS

Note 4. Continued

Employer contributions vest at 20 percent per year until they reach 100 percent at the end of year five. Employee contributions are immediately vested.

Retirement contributions made by the Hospital for the years ended September 30, 2010 and 2009, totaled \$991,362 and \$882,390, respectively.

Note 5. Contingencies

The Hospital participates in the State of Louisiana Patient Compensation Fund (the "Fund") for medical malpractice claims. As a participant, the Hospital has a statutory limitation of liability which provides that no award can be rendered against it in excess of \$500,000, plus interest and legal costs. The Fund provides coverage on a claims-made basis for claims over \$100,000 and up to \$500,000. The Hospital is also insured on a claims-made basis through a commercial insurance carrier for malpractice losses up to \$6,000,000 per occurrence, with a total annual limit of \$8,000,000, and with a self-insurance retention of \$100,000 per occurrence up to a maximum of \$300,000 in the aggregate per year.

The Hospital has been named as defendant in lawsuits alleging medical malpractice. Management of the Hospital, using information provided by its commercial insurance carrier, has accrued in the financial statements its best estimate of probable contingent losses on these claims and on estimated claims incurred but not reported. Changes in the Hospital's claims liability amount during the past two years is reflected below.

| Year Ended September 30, | Beginning of Year Liability | Current Year Claims and Changes in Estimates | Claims Payments | End of Year Liability |
|-------------------------------------|--|---|----------------------------|----------------------------------|
| 2010 | \$ 1,030,200 | \$ 447,550 | \$ (417,550) | \$ 1,060,200 |
| 2009 | \$ 975,000 | \$ 465,962 | \$ (410,762) | \$ 1,030,200 |

The Hospital is self-insured for workers' compensation and for employee health insurance up to \$100,000 per claim respectively. A liability is recorded when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Liabilities for claims incurred are reevaluated periodically to take into consideration recently settled claims, frequency of claims and other economic and social factors. The Hospital purchased commercial insurance that provides coverage for workers' compensation and employee health claims in excess of the self-insured limits.

The workers' compensation and health insurance claims liabilities at September 30 are based on the requirements of GASB Statement No. 10. This statement provides that a liability for claims be

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NOTES TO FINANCIAL STATEMENTS

Note 5. Continued

reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as the date of the financial statements and the amount of loss can be reasonably estimated. Changes in the Hospital's claims liability amount during the past two years is reflected below:

| Year Ended September 30, | Beginning of Year Liability | Current-Year Claims and Changes in Estimates | Claims Payments | End of Year Liability |
|-------------------------------------|--|---|----------------------------|--------------------------------------|
| 2010 | \$ 1,166,200 | \$ 5,157,972 | \$ (4,894,142) | \$ 1,430,030 |
| 2009 | \$ 799,600 | \$ 3,898,531 | \$ (3,531,931) | \$ 1,166,200 |

Note 6. Postemployment Benefits

The Hospital sponsors an other post-employment ("OPEB") plan for retirees meeting certain criteria (the "OPEB Plan"). The OPEB Plan allows retirees to receive health insurance at a nominally discounted rate until Medicare eligible age. Benefits under the OPEB Plan as well as the OPEB Plan's funding policy are determined by the Hospital's Board of Commissioners and can be revised or amended at any time. Members of the OPEB Plan contributed \$48,000 for the year ended September 30, 2010, through their required monthly contributions ranging from \$414 to \$1,285. The Hospital's required contribution is on a pay-as-you-go basis. The OPEB Plan does not issue stand-alone financial statements.

The Hospital's annual OPEB Plan cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Hospital's annual OPEB Plan cost for the year, the amount actually contributed to the OPEB Plan, and changes in the Hospital's net OPEB Plan obligation for the year ended September 30, 2010:

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PARISH OF LAFOURCHE, STATE OF LOUISIANA
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NOTES TO FINANCIAL STATEMENTS

Note 6. Continued

| | 2010 |
|--|------------|
| Annual required contribution | \$ 145,000 |
| Interest on net OPEB obligation | - |
| Adjustment to annual required contribution | - |
| Annual OPEB cost | 145,000 |
| Contributions made | (22,000) |
| Increase in net OPEB obligation | 123,000 |
| Net OPEB obligation, beginning of year | - |
| Net OPEB obligation, end of year | \$ 123,000 |

The Hospital's annual OPEB Plan cost, the percentage of annual OPEB Plan cost contributed to the OPEB Plan and the net OPEB Plan obligation for 2010 was as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of OPEB Cost Contributed | Net OPEB Obligation |
|----------------------|---------------------|--|---------------------------|
| September 30, 2010 | \$ 145,000 | 15% | 123,000 |

As of September 30, 2010, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$1,328,000, and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability ("UAAL") of \$1,328,000.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the OPEB Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive OPEB Plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and OPEB Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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NOTES TO FINANCIAL STATEMENTS

Note 6. Continued

In the September 30, 2010 actuarial valuation, the unit credit actuarial cost method was used. The actuarial assumptions included discount rate of 4.5 percent and an annual healthcare cost trend rate of 11 percent initially, reduced by decrements to an ultimate rate of 5.0 percent in 2021. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at September 30, 2010, was 30 years.

As of September 30, 2009, management evaluated the Hospital's annual OPEB plan cost and determined that any such liabilities and related disclosures were not significant to the financial statements.

Note 7. Capital Assets

Capital assets at September 30, 2010 and 2009, and the changes for each year, consisted of the following:

| | 2010 | 2009 |
|-------------------------------|----------------|----------------|
| Land | \$ 7,017,099 | \$ 7,017,099 |
| Land improvements | 5,716,988 | 5,657,490 |
| Building and fixed equipment | 136,332,765 | 110,411,267 |
| Major moveable equipment | 66,711,576 | 61,103,784 |
| Capital assets, at cost | 215,778,428 | 184,189,640 |
| Less accumulated depreciation | (87,182,370) | (78,411,561) |
| | 128,596,058 | 105,778,079 |
| Construction in progress | 479,630 | 15,044,601 |
| Capital assets, net | \$ 129,075,688 | \$ 120,822,680 |

Depreciation expense for the years ended 2010 and 2009 totaled \$10,283,373 and \$9,676,423 respectively.

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NOTES TO FINANCIAL STATEMENTS

Note 7. Continued

Capital assets activity for the year ended September 30, 2010 was as follows:

| | Beginning | Additions | Retirements | Ending |
|---|----------------|---------------|-----------------|----------------|
| Capital assets not being | | | | |
| Depreciated | | | | |
| Land | \$ 7,017,099 | \$ - | \$ - | \$ 7,017,099 |
| Construction in progress | 15,044,601 | 12,163,708 | (26,728,679) | 479,630 |
| Total capital assets not being depreciated | 22,061,700 | 12,163,708 | (26,728,679) | 7,496,729 |
| Other capital assets | | | | |
| Land improvements | 5,657,490 | 59,498 | - | 5,716,988 |
| Building and fixed equipment | 110,411,267 | 25,924,505 | (3,007) | 136,332,765 |
| Major moveable equipment | 61,103,784 | 7,138,592 | (1,530,800) | 66,711,576 |
| Total other capital assets at historical cost | 177,172,541 | 33,122,595 | (1,533,807) | 208,761,329 |
| Less accumulated depreciation | (78,411,561) | (10,283,373) | 1,512,564 | (87,182,370) |
| Other capital assets, net | 98,760,980 | 22,839,222 | (21,243) | 121,578,959 |
| Total capital assets, net | \$ 120,822,680 | \$ 35,002,930 | \$ (26,749,922) | \$ 129,075,688 |

Capital assets activity for the year ended September 30, 2009 was as follows:

| | Beginning | Additions | Retirements | Ending |
|---|----------------|---------------|-------------|----------------|
| Capital assets not being | | | | |
| Depreciated | | | | |
| Land | \$ 1,737,625 | \$ 5,279,474 | \$ - | \$ 7,017,099 |
| Construction in progress | 8,527,920 | 6,516,681 | - | 15,044,601 |
| Total capital assets not being depreciated | 10,265,545 | 11,796,155 | - | 22,061,700 |
| Other capital assets | | | | |
| Land improvements | 5,620,570 | 36,920 | - | 5,657,490 |
| Building and fixed equipment | 105,021,669 | 5,389,598 | - | 110,411,267 |
| Major moveable equipment | 57,600,282 | 3,776,439 | (272,937) | 61,103,784 |
| Total other capital assets at historical cost | 168,242,521 | 9,202,957 | (272,937) | 177,172,541 |
| Less accumulated depreciation | (68,999,569) | (9,676,423) | 264,431 | (78,411,561) |
| Other capital assets, net | 99,242,952 | (473,466) | (8,506) | 98,760,980 |
| Total capital assets, net | \$ 109,508,497 | \$ 11,322,689 | \$ (8,506) | \$ 120,822,680 |

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Years Ended September 30, 2010 and 2009

NOTES TO FINANCIAL STATEMENTS

Note 8. Operating Leases

The Hospital leases various equipment and facilities under operating leases expiring at various dates through June 2015. Total rental expense for the year ended September 30, 2010 and 2009, for all operating leases was approximately \$1,184,000 and \$1,198,000, respectively. The following is a schedule by year of future minimum lease payments under non-cancelable operating leases that have initial or remaining lease terms in excess of one year.

| Year Ending September 30, | Amount |
|--------------------------------------|---------------------|
| 2011 | \$ 339,937 |
| 2012 | 383,108 |
| 2013 | 366,295 |
| 2014 | 366,295 |
| 2015 | 323,384 |
| Total | <u>\$ 1,779,019</u> |

The Hospital leases office space in a medical office building and clinical facilities, generally to members of its medical staff, under operating leases with terms ranging up to five years. The future minimum lease payments to be received from these leases follows:

| Year Ending September 30, | Amount |
|--------------------------------------|---------------------|
| 2011 | \$ 1,209,568 |
| 2012 | 655,980 |
| 2013 | 181,285 |
| 2014 | 48,345 |
| Total | <u>\$ 2,095,178</u> |

The cost of assets held for lease totaled \$24,800,000 and \$23,600,000 at September 30, 2010 and 2009, respectively. Related accumulated amortization was approximately \$4,113,000 and \$3,176,000 at September 30, 2010 and 2009.

Note 9. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payer agreements. The mix of accounts receivables from third-party payors at September 30, 2010 and 2009 was as follows:

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NOTES TO FINANCIAL STATEMENTS

Note 9. Continued

| | 2010 | 2009 |
|---------------------------------------|-------|-------|
| Patients and their insurance carriers | 79.6% | 74.8% |
| Medicare | 20.1 | 23.7 |
| Medicaid | 0.3 | 1.5 |
| | 100% | 100% |

Note 10. Governmental Regulations

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers in recent years. Violations of these laws and regulations could result in expulsion from government healthcare programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse, as well as other applicable government laws and regulations. While no material regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Note 11. Net Patient Service Revenue

The Hospital has agreements with governmental and other third-party payors that provide for payments to the Hospital for services rendered at amounts different from its established rates. Patient revenue is reported net of contractual adjustments arising from these third-party arrangements, as well as net of provisions for bad debts. A summary of the payment arrangements with major third-party payors follows:

Medicare

Inpatient acute, rehabilitation and outpatient services rendered to Medicare beneficiaries are paid primarily by prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Medicare bad debts and disproportionate share payments are paid at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

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NOTES TO FINANCIAL STATEMENTS

Note 11. Continued

Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a prospective reimbursement methodology (per diem). The Hospital is reimbursed at a tentative prospective rate which is adjusted annually based on the annual cost reports as submitted by the Hospital and audits by the Medicaid fiscal intermediary.

Other

The Hospital has also entered into payment agreements with certain other commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates and discounts from established charges.

The composition of net patient service revenue as of September 30 includes:

| | 2010 | 2009 |
|--|-----------------------|-----------------------|
| Gross patient service revenue | \$ 420,455,982 | \$ 380,097,174 |
| Less: | | |
| Provisions for contractual adjustments | 282,115,393 | 252,293,372 |
| Provisions for bad debts | 11,846,817 | 10,011,225 |
| Net patient service revenue | <u>\$ 126,493,772</u> | <u>\$ 117,792,577</u> |

Note 12. Investment in Joint Venture

During 2007, the Hospital purchased a 50 percent ownership interest in a joint venture that provides surgical and endoscopy services. The Hospital does not have the ability to exercise significant influence over the entity. The following is summarized unaudited financial information for the joint venture as of and for the years ended September 30, 2010 and 2009.

| | 2010 | 2009 |
|----------------------------------|---------------------|---------------------|
| Cash | \$ 870,837 | \$ 831,439 |
| Patient accounts receivable, net | 519,509 | 345,848 |
| Capital assets, net | 815,941 | 1,204,454 |
| Other assets | 298,072 | 220,884 |
| Total assets | <u>\$ 2,504,359</u> | <u>\$ 2,602,625</u> |

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(D/B/A THIBODAUX REGIONAL MEDICAL CENTER)
Years Ended September 30, 2010 and 2009**

NOTES TO FINANCIAL STATEMENTS

Note 12. Continued

| | 2010 | 2009 |
|--|------------------|------------------|
| Current liabilities | \$ 468,831 | \$ 726,730 |
| Long-term liabilities | 1,043,957 | 969,210 |
| Members' capital | 991,571 | 906,685 |
| Total liabilities and capital | \$ 2,504,359 | \$ 2,602,625 |
| Net patient service and other revenues | \$ 6,383,634 | \$ 5,992,760 |
| Operating expenses | (4,174,518) | (4,470,982) |
| Net income | \$ 2,209,116 | \$ 1,521,778 |

The Hospital leases space to this entity. Rental income recorded for 2010 and 2009 was approximately \$416,000.

Note 13. Recent Reporting and Disclosure Developments

Accounting Pronouncements Issued Not Yet Adopted

Governmental Accounting Standards Board Statement No. 54 ("GASB 54")

The Hospital will adopt GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal year 2011. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

Governmental Accounting Standards Board Statement No. 57 ("GASB 57")

This Statement amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. Consistent with this change to the employer-reporting requirements, this Statement also amends a Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, requirement that a defined benefit OPEB plan obtain an actuarial valuation. The provisions of this Statement related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management has not evaluated the effect of adopting this standard.

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Years Ended September 30, 2010 and 2009**

NOTES TO FINANCIAL STATEMENTS

Note 13. Continued

Governmental Accounting Standards Board Statement No. 59 ("GASB 59")

The Hospital will adopt GASB No. 59, *Financial Instruments Omnibus*, in fiscal year 2011. This statement provides accounting and financial reporting guidance related to certain financial instruments and external investment pools.

Governmental Accounting Standards Board Statement No. 61 ("GASB 61")

The Hospital will adopt GASB No. 61, *The Financial Reporting Entity: Omnibus*, in fiscal year 2013. This statement enhances the financial reporting for government entities and related component units.

Governmental Accounting Standards Board Statement No. 62 ("GASB 62")

The Hospital will adopt GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, in fiscal year 2013. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board (FASB) Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the AICPA Committee on Accounting procedure



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Commissioners
Hospital Service District No. 3 of the
Parish of Lafourche, State of Louisiana

We have audited the financial statements of Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana (d/b/a Thibodaux Regional Medical Center) as of and for the year ended September 30, 2010, and have issued our report thereon dated February 11, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana's (d/b/a Thibodaux Regional Medical Center) internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana's (d/b/a Thibodaux Regional Medical Center) internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana's (d/b/a Thibodaux Regional Medical Center) internal control over financial reporting.

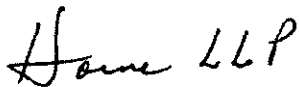
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana's (d/b/a Thibodaux Regional Medical Center) financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Commissioners, others within the entity, and the Office of the State Auditor and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in black ink that reads "Hame LLP". The signature is written in a cursive, flowing style.

Ridgeland, Mississippi
February 11, 2011